Insightful Data Drives Risk Profile Impact and Ancillary Cost Management Decisions

Joe Wieligman and Todd Schreck

Suppose someone met you at a professional function and offered to bring you a beverage. You watch as it is carried toward you, and it's impossible to ignore the way the contents are carelessly being spilled. By the time it is delivered, about a quarter of your beverage is soaking into the conference center carpeting. You instinctively reject the offer to bring you a second. After all, you'd never tolerate that kind of loss.

Instead of a beverage, what if it was your workers compensation claims data being delivered? If your company is similar to other organizations across most business sectors, industry analyses suggest that between 20 percent and 30 percent of claims payments are lost to leakage. With the average workers compensation per-claim cost now at $41,757, there's a significant amount of money seeping wastefully into the carpeting. Additionally, preventable injury rates continue to rise steeply—7.5 percent in 2021 and 4.7 percent in 2022—forcing organizations to pay out many more of those costlier claims.

Actually, insureds already have everything that is needed to successfully affect reductions in their claims and the incidents that give birth to them. Their own data is a literal treasure trove of opportunities for not only determining claims costs but also for spotting patterns that signal a need for new thinking about better ways to address them.

Embracing Data Analytics

The simple fact is that insureds now have access to more data than their counterparts could have even imagined a generation ago. What's considerably less simple is the process of organizing and analyzing all the meaningful raw information that's lurking in the data. Fortunately, the rise of artificial intelligence is rapidly expanding the power and capabilities of data analysis.

Whether an organization has its own capacity for data analytics or turns to specialized expertise available through industry professionals, tapping into existing data will help find better ways to reduce business risks and their associated costs.

This discussion is focused on workers compensation coverage because it's universal and is one of the places where data delivers immediate insight. However, the strategies described apply equally to other insurance and risk management approaches.

Don't Ignore Data

Understanding and managing data is paramount to an organization's success. It can help lower what is spent on insurance. Understanding your data provides a way to convince the underwriting community that your risk profile is more attractive than the average for your industry.

But let's be careful about comparing your company to others. Too many company leaders make decisions based solely on how some measure compares with peer companies. Instead, it is recommended to compare your company's data with only one company—your own. Industry data can be more volatile than you might suspect, given that the composition of companies contributing that data often changes with each ranking. Compare your company's data to the industry's data over 3 years, and you might be tempted to conclude you're out of whack. However, it may actually be the industry that's out of whack.

Your Own Data

Choosing to focus on changes in your own data can provide immediate insight into the health and potential of your business. To put another way, the better you understand the data, the easier it is to see where you can make meaningful changes.

Data at Your Fingertips

- Incident history (counts and investigation details)
- Insured claims experience (full details)
- Medical management (dollars spent and saved)
- Loss triangles
- Exposures (sales, payroll, headcount, and fleet)
- Claims trends (frequency and severity)
- Incident trends (frequency and cause)
- Vendor alignment (by specialty and by location)

The most effective approach is to identify and track the key performance indicators (KPIs) that present a snapshot of where your business is at any moment in time. Suppose you modified a particular work practice to address an unusually high number of a specific type of claim. Comparing that claim rate year over year will reveal whether your efforts are successful.

While a comparison to other companies has some value to management, an insured's own data is more meaningful to its business than any other available information.

Additionally, some insureds struggling to achieve profitability have no idea about the history lurking in their data, particularly how much is lost to claims for risks that could be prevented or at least mitigated.

Less Subjectivity

A couple of decades ago, underwriters often applied something called "subjective credits" when determining the optimal insurance premium. They'd begin with an analytical process to arrive at a number and use those credits to reduce the premium. The company might have agreed to start a more aggressive safety program or to make a significant change in operations so the underwriter would believe the actual risk profile would be lower.

That subjectivity has all but disappeared in the face of so much data. Underwriting analyses are more predictive than ever. Now, the most effective way to lower premium costs is for an insured to reduce accident rates and the costs associated with each claim. Keep in mind the $41,757 figure mentioned earlier.

OSHA Data, Too

Not only do insureds potentially have access to all the data associated with their claims, but they also have access to information collected by the Occupational Safety and Health Administration (OSHA), which provides complete incident data. The analytics can point to areas with the highest rate of incidents or show how a targeted approach, such as engineering a hazard out of a process, could directly reduce both incidents and claims.

Instead of dreading an OSHA inspection, it could be seen as an opportunity to identify unnoticed or unrecognized risks. Focusing data analysis on the areas inspectors target can pinpoint opportunities to reduce claims.

More about KPIs

KPIs associated with claims data generally illustrate trends or causes of loss. On the trend side, some of the more meaningful KPIs include quantifying an insured's total cost of risk, rates of accidents and/or incidents and their severity, the lag in reporting days, and claims closure rates. Dividing total annual losses by the insured's profit margin will produce the additional revenue required to replace these losses.

Cause-of-loss KPIs examine factors such as comparing accident dates and hire dates or trends in the day of week and/or time of days. They can also provide insight into equipment, objects, and materials connected to incidents.

Targets and Steps

Effective strategies to improve an insured's risk profile can target opportunities that provide long-term benefits to its operations and bottom line. Focusing on reducing the total cost of risk encourages drilling down to identify specific risks that could be mitigated or even eliminated. When improving the risk profile becomes a primary objective, risk begins to be discussed in ways that influence internal and external decision-making. Vendor partners are selected through a risk-centric lens.

Specific types of strategic efforts to inform these activities include the following.

- **Incident management assessments.** Instead of concentrating solely on claims, look deeper into the incidents creating these claims. Would changes in processes, procedures, or engineering reduce the incident rate or severity?
- **Accelerated claims closure.** Legacy claims for workers compensation coverage and related liability can drain profitability. Evaluating and determining the next steps can simplify things.
- **Claims reserves impact studies.** Determining how reducing claims will affect the reserves set aside to cover them may offer opportunities to restructure an insured's risk management portfolio.
- **Vendor performance evaluations.** Vendors such as third-party administrators (TPAs) play critical roles in the success and financial impact of insureds' programs. So, it is important to verify they are providing support and not just increasing costs.

Companies can perform various technical activities to support these efforts, such as periodic claims reviews, annual vendor audits, and prioritizing property risk engineering.

Getting Started

Insureds that have been hesitant to explore their data are not the exception. Industry surveys repeatedly confirm that only a minority of organizations effectively use their data. It takes some learning. No two systems are exactly alike, and mistakes can be easily made. If an insured's team lacks experience with data analysis, an outside, trusted industry partner can deliver those skills whenever needed.

Conducting Inventory

The first step involves conducting an accurate and thorough inventory of an insured's risk data. First is the potential data exposure related to things like employee headcount, payroll, company sales, or maybe square footage (for a retailer). An insured can track data historically or combine current and historical information.

Incident Counts

Every unsafe incident on a job site doesn't lead to a workers compensation claim, but a large percentage does. Trying to assess your risk exposure by focusing only on claims misses the "why" behind the "what." Incident count is the key performance indicator you need to track in addition to the associated claims data. If an insured experiences the same level of incidents month after month, the root issues aren't being addressed. Further, insureds should encourage tracking of "near miss" situations. They can also provide valuable insight.

Why should incidents be granted so much attention? Incidents are where things start. When an insured sees incidents, they can be attacked with loss control strategies and risk engineering to eliminate the hazard or to lessen the likelihood of a similar incident happening again. When incidents are eliminated, they never develop into costly claims.

Looking at Loss

Insureds need to formally document losses to accurately determine the full cost and then project that information to calculate the exposure moving forward. That calculation will also help connect incident and financial management so worst-case scenarios can be explored. Then, incident management can be utilized to prevent these scenarios from occurring. Loss runs provide a lagging indicator of what occurred. Incident management can serve as a leading indicator by alerting insureds to potential exposures that may need to be prioritized.

Claims Reporting

Another analysis to consider is how quickly claims are being reported. If just 50 percent of claims are reported during the first 10 days, there's a timeliness issue, and the cost of those claims will likely increase. Taking deeper dives into the data can help identify opportunities to improve care while reducing costs. Related to that are claims closure strategies, which are designed to prevent the uncertainties associated with delayed litigation and nuclear verdicts, along with the legal fees these uncertainties generate.

Other Costs

It's also worthwhile to dig into data on fees charged by TPAs and other vendors. How are operational costs being billed? Significant savings sometimes can be achieved by a reduction in TPA costs alone. Often, it has nothing to do with the nature of the claims but rather with how the process is being managed.

Vendor management is another subject worthy of analysis. Are all the strategies available to reduce claims and losses being utilized? Is a return-to-work program reducing lost workdays? Insureds want their vendors to charge fair compensation, but they also want to ensure they receive the complete value of what they're paying for.

User Level

Whether an insured is new to the concept or has long been adept at making databases sing, adding data analysis to their risk management toolkit is essential. Insureds have access to remarkable technology that handles most of the annoying and frustrating stuff. These platforms gather data from multiple internal and external sources to identify situations and patterns that otherwise would be missed. Different systems are ideal for various tasks and expectations, and a trusted partner can help choose the tools to improve an insured's data analysis game. A plan must also address how and when updated data will be added to the insured's repository.

Final Note

Can an organization's risk management efforts be completed without embracing the insight data analysis can produce? Absolutely. A business could also be run without computers, but why would it?

Data is driving every aspect of business today, and if an insured isn't using its own to the fullest, it can count on falling behind its competitors. More to the point, without a firm grasp of the data, a risk management program can never be aligned with the financial or operational business strategies of the organization it endeavors to support.

Joe Wieligman
Strategic Operations Officer
Hylant Group, Inc.

Mr. Wieligman is Hylant's strategic operations officer and a Risk and Insurance Management Society, Inc., member. He focuses on helping clients align their risk appetite with the appropriate insurance coverage and structure.

Todd Schreck
Strategic Growth Leader
Hylant Group, Inc.

Mr. Schreck is the strategic growth leader for Hylant, one of the largest privately owned insurance brokerages in the United States. He focuses on delivering risk and industry practice resources and technologies and is a regular speaker at Risk and Insurance Management Society, Inc., events.